A Guide to Export Opportunities and Sources of Financing

Financing International Projects

Ontario International Corporation

A Guide to Export Opportunities and Sources of Financing

Financing International Projects

Contents

An Introduction to Exporting

Exporting is a way of life for many Ontario professional service firms, contractors, and manufacturers. Foreign work can generate growth revenues and provide a cushion when the domestic economy takes a downturn. In fact, export experience may determine the long-term success of a business. It teaches the art of remaining competitive.

Successful exporters understand and manage export-related financing problems on a day-to-day basis. Equity and loan funds are needed to buy and renew fixed assets if export orders exceed plant or office capacity. Additional working capital may be required to finance production, a build-up in inventories, or additional accounts receivables. For export businesses, access to adequate financing is essential.

Potential customers for export goods and services face similar, but often more complex, financing problems. First, foreign customers must secure a source of financing and second, ensure this source has access to foreign currency. In the current climate of chronic debt crisis and ever-changing government regulations, it can be difficult to secure adequate financing.

Exporters who understand the importance that adequate financing plays in foreign customers' purchasing decisions are more likely to have success in increasing their export business. Analysis of the organizations prepared to fund foreign customers, how they work, and how a company can gain access to financing, may produce market leads. The Canadian government supports many financing agencies, through grants and loans, to help Canadian exporters compete for their fair share of available business.

This booklet provides basic information on the financing of the export market for capital and technical assistance projects open to competition from Ontario professional service firms, construction companies, and capital goods manufacturers. It explains the importance of financing—how to reduce risk by competing for international projects with assured financing—and describes the sources of such financing. Most important, it tells you where to go for more information.

Capital Projects

The export market for professional services, contracting, and equipment supply has its roots in what is known as the capital projects market. World demand for capital projects is estimated to be worth billions of dollars annually.

Capital projects fall into two categories: infrastructure and industrial.

Infrastructure projects are so named because they provide a country with basic support services—roads, bridges, airports, transportation systems, water and sewage systems, and communication systems.

Industrial projects provide factories and plants to manufacture and process food, paper, iron, and steel—all of the products consumed by people or by other industries.

Governments normally undertake infrastructure projects, drawing funds from and maintaining records in capital accounts—hence the term capital projects. Business concerns and crown corporations normally build factories, drawing funds from shareholders or financing institutions and maintaining balance-sheet records of the transactions.

Every country has plans for capital projects intended to improve the health and welfare of its people, to improve transportation and communication systems, to harness power sources, and to extract and process resources. These projects call for expertise in many sectors in which Ontario enterprises thrive:

- power generation and transmission
- mining
- environmental protection
- architectural design
- education and training
- transportation
- tourism
- public administration
- agriculture
- telecommunications
- forestry
- health care

For professional service organizations, there are export opportunities both in capital-rich countries and in those benefitting from international aid during each phase of what is known as the project cycle:

- identification
- preparation
- appraisal
- funding
- implementation

The final phase—implementation—offers export opportunities for contractors and equipment suppliers as well as for professional service firms with expertise in project management, training, operations, and maintenance.

Technical Assistance Projects

Many developing countries are heavily indebted to the industrial nations. Prior to their debt problems, these countries received foreign loans and development aid to fund capital-intensive infrastructure and industrial projects. Since the debt crisis, they have received less aid and also have been called on to allocate a percentage of their resources to pay for the old development loan debts. Limited funds are therefore available for new industrial or infrastructure projects.

Although export opportunities for professional services required for industrial and infrastructure projects have diminished in debt-burdened countries, new requirements for professional services have arisen.

The industrial nations, through the International Monetary Fund (IMF) and other financial institutions, have advanced macroeconomic or structural adjustment programs in developing countries. These countries are expected to encourage improvements in administrative and economic policies and procedures and to adopt freer market policies that support economic growth.

The approach is controversial. However, since key development agencies have agreed to fund the implementation of technical assistance projects,

Ontario consultants have an opportunity to sell foreign organizations their expertise in several fields, among them:

- education
- economics and banking
- institutional guidance
- trading, truck and rail transportation
- telecommunications
- operations and maintenance
- small-business development
- agriculture
- utility management

The developing countries require considerable assistance in establishing administrative, legal, and regulatory frameworks under the new conditions. And to compete in a freer market economy and attract new capital they also require much assistance in maintaining, operating, and upgrading industrial operations.

In many development agencies, structural adjustment "with a human face" has become official policy in order to minimize or reverse austerity measures adopted by developing country governments in response to imposed adjustment programs. International funding provided under this mandate calls for providing professional technical assistance in:

- medicine
- education and teaching
- food distribution

The Canadian International Development Agency (CIDA), the agencies of the World Bank, the agencies of the United Nations, and many regional development organizations all fund professional service projects, both those required for industrial and infrastructure purposes and for structural adjustment programs. Tables 1-3 show the types of projects funded by these organizations.

In order to participate in contracts awarded by CIDA and most international financing agencies, professional firms must be registered with these organizations.

Table 1

Sample Capital Project Proposals Under Consideration by the World Bank, June 1989

Region	Sector	Country	Financing (US $ millions)
Africa	Education/ Training	Djibouti	4.6
		Sudan	25.0
		Zaire	46.7
	Finance	Benin	5.0
		Kenya	15.0
		Madagascar	30.0
		Uganda	64.0
		West Africa Region	50.0
	Health	Comoros	9.5
	Ports	Tanzania	30.0
	Population	Kenya	20.0
Asia	Agriculture	China	100.0
		Indonesia	150.0
	Education/ Training	Bangladesh	20.0
		Fiji	8.0
		Indonesia	50.0
		Nepal	20.0
		Sri Lanka	50.0
	Environmental/ Pollution Control	China	100.0
		India	150.0
	Finance	Indonesia	150.0
		Tonga	3.0
	Health	Nepal	15.0
	Industry	Indonesia	250.0
	Petroleum	Indonesia	100.0
	Population	Bangladesh	100.0
		Indonesia	50.0
	Power	Bangladesh	40.0
		Bangladesh	80.0
		Indonesia	150.0
	Reconstruction/ Rehabilitation	Bangladesh	133.6
	Telecommunications	Sri Lanka	25.0
	Urban Development	Indonesia	250.0
		Indonesia	60.0
	Water	Bangladesh	100.0
Europe, Middle East, & North Africa	Finance	Turkey	200.0
	Industry	Egypt	50.0
	Mining	Jordan	35.0
Latin America & the Caribbean	Finance	Brazil	100.0
	Sanitation	Brazil	70.0

Source: *Development Business*, UN Department of Public Information (June 1989).

Table 2

Sample Technical Services Proposals Under Consideration by the Inter-American Development Bank, May 1989

Country	Category	Services	Value (US $ millions)
Bahamas	Ports	Feasibility studies and final designs	2.30
Jamaica	Health	Institutional strengthening & training: 6 hospitals	92.00
Mexico	Industry	Support for entrepreneurs in Monterrey	0.50
Nicaragua	Energy	Feasibility studies for energy production in geothermal fields	21.00
Panama	Water	Improvement of water-treatment plant and systems	78.00
Barbados	Environment	Studies of alternative solutions for coastal preservation	7.30
Brazil	Urban Development	Program for financing small projects: RECIFE	0.09
Colombia	Technical Cooperation	Planning operations: municipal investment	1.00
Costa Rica	Agriculture	Technical training: small projects	0.05
Guyana	Education	Support for national primary education system	54.20
Haiti	Roads	Pre-investment studies: rural roads	0.90

Source: *Development Business*, UN Department of Public Information (May 1989).

Table 3

Sample Active Technical Services Contracts Funded by the Canadian International Development Agency, Summer 1989

Country	Category	Services	Value (US $ millions)
Egypt	Agriculture	Basic data collection	1.10
Ethiopia	Water	Rural water planning	3.20
Ghana	Social	Women in development	2.50
Jordan	Ports	Technical appraisal: jetty	0.06
Kenya	Electricity	High-voltage systems study	0.09
Lesotho	Urban	Urban upgrading program	1.00
Malawi	Agriculture	Dairy development	4.60
Sudan	Forestry	Wood utilization	0.06
Tanzania	Government	Topography mapping	7.10
Uganda	Industry	Macroeconomic study	0.20
Zambia	Fisheries	Feeder RD's: fish development	5.80
Zimbabwe	Roads	Technical assistance: equipment	0.50

Source: *The Business of Development*, CIDA Business Cooperation Branch (Summer 1989).

The Importance of Financing

Financing a capital project or a technical-assistance contract is the host-country organization's responsibility. Assisting the organization to obtain financing is usually the role of financial and development institutions. However, exporters with access to export credit sources may be able to arrange financing that would enhance their competitive position.

Financing for industrial projects and related technical assistance is available to host-country organizations from several sources. Projects promising a reasonable and fast rate of return on investment attract a variety of financing offers. Public works and consulting services that are funded by municipal, state, and central governments and provide no commercial return rarely attract such financing. Governments generally fund infrastructure and services with treasury resources, for example, by borrowing against bonds or sovereign guarantees.

These conditions apply worldwide. Projects promising a return in a freely convertible currency attract the developed world's financiers. Projects promoted in blocked currency or in poor countries usually attract only foreign aid or development agency project financing.

Who Competes for International Projects

Ontario professionals, contractors, and manufacturers compete individually or in domestic and international consortia for project work. Experienced, large organizations often pursue contracts calling for the complete supply and erection of capital works. These organizations and consortia are in a position to qualify for complex tasks funded by private, government, and international financing institutions. Less-experienced or medium- and smaller-sized companies usually compete for discrete portions of such work, either directly to foreign entities or as subcontractors to the larger suppliers.

Individual consultants or groups of consultants may also compete for international work by making known their areas of expertise to foreign clients assured of funding, to international financing agencies such as the World Bank, and to bilateral agencies, such as CIDA. Development agencies using their own funds may hire consultants to do economic assessment or project review work and also often recommend or review the capabilities of consultants on behalf of foreign organizations funded by the agency.

Ontario companies that compete successfully for international projects year after year have in common a commitment to quality, an internationally competitive product or service, and financially astute management of project opportunities.

Export Risks

All export contracts carry risks. If these risks are not properly managed, serious financial consequences may result.

With foreign projects the risks may well be more numerous and onerous than for similar domestic projects. For example, materials and personnel may have to be shipped for long distances and through several countries; or the exporter might have to work under far different climatic conditions, and with local authorities or subcontractors who may be unknown to the new venturer. There also exist political and currency risks not experienced in domestic situations.

To minimize these risks, a proper understanding of both tender and contract documents is essential, especially any liabilities that may be imposed upon the exporter and the payment method and terms.

Clear evidence that a foreign organization has access to Canadian dollars or to a freely convertible currency to pay the agreed terms is a major consideration in assessing project risk. Exporters who plan to use third-party financing should ensure that the contract takes effect after financing is in place.

A wide range of insurance coverage is available from the private insurance industry and from the Export Development Corporation (EDC), a Canadian crown corporation. Coverages range from risks relating to the transportation and storage of goods, the construction and erection of capital works, and equipment installation and testing, to the handing-over of the project. Special insurance covers expatriate personnel, liability-type claims, political events affecting the work progress, and nonpayment of monies due. The risks of

nonperformance by subcontractors or suppliers may also be protected under certain circumstances.

In summary, it can be said that most foreign project risks can be protected; exceptions include fluctuations in foreign currency exchange rates, mistakes made in calculating the tender price, and the exporter's failure to perform properly.

Firms considering foreign project work should understand and evaluate the risk of losing working capital. Successful tenderers for the supply of goods and/or erection and construction services may be asked to provide downpayment and performance guarantees. Since banks do not assume the exporter's risk, the exporter is required to have adequate working capital as collateral to satisfy a potential call on a guarantee.

Insurance is available to assist exporters to obtain the guarantees and provide protection from an improper call. No protection, however, is offered in the event of an exporter's failure to live up to the commercial conditions of the contract.

Before calculating a final bid price, an exporter should analyze the project risks and include in the bid the estimated costs of project insurance coverages and any related third-party financing arrangement expenses.

Successful exporters understand the role of financing in reducing risk. Projects that are funded or can attract funding represent an opportunity; projects that are not fundable may be bad debt candidates.

Backgrounding

Consultants, manufacturers, and contractors interested in pursuing project development or technical assistance contracts can obtain background information from the following publications.

The Project Cycle, a brochure based on a 1978 article by Warren C. Baum, a World Bank vice-president, is available free upon request from the bank. It is mandatory reading for any serious entrepreneur considering exporting goods or services. Contact:

International Bank for Reconstruction and Development
The World Bank
1818 H Street, NW
Washington, DC 20433
USA
Tel.: (202) 477-1234

Businessman's Guide: Pursuit of IFI Contracts, published by the Canadian Embassy in Washington, introduces the role of the main international development agencies that fund projects in developing countries. It is mandatory reading and can be obtained by contacting:

Office for Liaison with International Financial Institutions
Canadian Embassy
501 Pennsylvania Avenue, NW
Washington, DC 20001
USA
Tel.: (202) 682-1740
Fax: (202) 682-7726

CIDA publishes quarterly reports under the general title of *The Business of Development*. These reports list contracts awarded, lines of credit, and the executing agencies active at the time of publication. To obtain these reports or general information, contact:

Canadian International Development Agency
200 Promenade du Portage
Hull, Quebec
K1A 0G4
Tel.: (819) 997-545
Fax: (819) 953-5469

CIDA encourages the private sector to play the fullest possible role in Canada's aid involvement in developing countries. An explanation of what CIDA does and its programs is contained in *International Financing Data: A Business Guide to Export Financing and Other Financing Assistance*, published by External Affairs. The brochure also outlines the services of Canadian chartered banks and the EDC. It is available by contacting:

Department of External Affairs
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario
K1A 0G2
Tel.: 1-800-267-8376

All bilateral agencies (e.g., CIDA) and international development agencies (e.g., the World Bank) publish guidelines on their procedures governing the use of consultants and procurement policies. These guidelines can be obtained free of charge by writing to the various agencies.

A rich source of technical-assistance export opportunities for Ontario professionals are the agencies of the United Nations. The Inter-Agency Procurement Service Unit (IAPSU) has a mandate to provide information on grant-funded UN opportunities. It provides, free of charge, *General Business Guide for Potential Suppliers of Goods and Services to the United Nations System.* Contact:

The Inter-Agency Procurement Service Unit
Palais Des Nations
CH 1211 Geneva 10
Switzerland

How the Ontario International Corporation Can Help

The Ontario International Corporation offers a range of programs and services designed to assist Ontario exporters to identify international project opportunities and win contracts. These include:

- the International Projects Fund, which loans exporters up to $50,000 per project on a shared-cost basis. The loans are intended to offset some of the costs of pursuing international projects, such as those associated with pre-feasibility and feasibility studies, and with project proposals. Loans up to $15,000 are also provided for bringing in foreign buyers, for qualifying projects, and for training;
- contacts with key international, financial, and aid institutions, such as the World Bank, UN agencies, and regional development banks;
- support for the concept of and assistance in the forming of consortia to pursue international project opportunities;
- acting as prime contractor on behalf of Ontario companies when government-to-government contracting is essential;
- one-on-one counselling.

For more information, contact:

Ontario International Corporation
56 Wellesley Street West, 7th Floor
Toronto, Ontario
M7A 2E4
Tel.: (416) 965-3013
Fax: (416) 965-7049

Project Sponsors

Financing Capital Projects

Sponsors of capital projects requiring foreign technology, equipment, and expertise base their financing decisions first, on their ability to obtain the foreign exchange required and second, on the relative obligations connected with obtaining that foreign exchange from various sources.

Developing countries lacking foreign exchange often apply to bilateral development agencies, international financial institutions, and regional development banks, as well as to multilateral development agencies, for project funding. Depending on the country's level of GNP per capita, project funding by international financial institutions, regional development banks, and multilateral development agencies may be in the form of either loans (hard or soft) or grants (see Table 4).

Canada's bilateral agency is CIDA. International financial institutions include the World Bank and regional development banks such as the Asian Development Bank, the Inter-American Development Bank, and the African Development Bank. Multilateral development agencies include the UN system of agencies, such as the United Nations Development Program (UNDP), the United Nations Industrial Development Organization (UNIDO), the United Nations International Children's Emergency Fund (UNICEF), and others.

The bilateral and multilateral aid agencies and the international financial institutions respond by providing professional staff and/or the funds required to pay for professional help under tender conditions.

The international financial institutions (i.e., the World Bank and the regional development banks), as well as the UN agencies are major sources of project funding in developing countries. The World Bank, for example, has been the largest source of financial and technical assistance to developing countries to stimulate economic growth and development. In fiscal year 1989 alone, World Bank lending totalled US $21.4 billion for 225 new operations. Suppliers are chosen through an international competitive bidding process.

Typically, the World Bank does not finance the total cost of a project—just the components that must be purchased with foreign exchange (usually 40 percent). The rest of the funding is provided by the borrowing countries and by other agencies and commercial banks that co-finance with the World Bank.

Developing countries and sponsors in centrally planned economies face similar problems with financing. Industrialized countries are unwilling to consider loaning additional foreign exchange for capital projects until current loan payments are regularized. Bilateral and multilateral development funds may be limited. And while countertrade or barter transactions promise relief, they are often difficult to arrange.

Sponsors of capital projects in creditworthy countries have a greater range of choices. Development agencies, export credit agencies, banks, and other financing institutions compete vigorously for business in creditworthy countries. The project owner is free to analyze the effects of various types of financing on the choice of contracting method—either a one-responsibility contract or various contracts—knowing that suppliers from every industrialized country will respond.

Financing Technical Assistance Projects

Organizations in foreign countries hire and pay for technical assistance in much the same manner as in Canada. Professional firms make their expertise known in the marketplace and negotiate contracts after receiving requests for assistance either directly or by tender procedure. A foreign organization with access to a freely convertible currency can choose the required expertise from any country.

Developing countries may apply to CIDA for project assistance from professional firms registered with it. As with equipment procurement, technical expertise can be secured through Canadian tender conditions. Under other circumstances the aid recipient can receive a grant or low-interest loan, and an all-Canadian tender can be conducted subject only to procedural review by CIDA.

Developing countries may also apply to international financial institutions, regional development banks, or multilateral development agencies for technical assistance. Competition, of course, is much fiercer, since developing-country tenders are open to all firms whose countries belong to the international organizations.

Table 4

Sources of Financing in Developing Countries

Type	Project Identification	Project Preparation	Design Engineering and Project Management	Equipment Supply	Construction and Equipment Installation	Maintenance and Training
Grants and Soft Loans						
International Financial Institutions	✓	✓				✓
Multilateral Development Agencies	✓	✓				✓
Pre-Investment Institutions	✓	✓				
Arab Agencies	✓	✓	✓	✓	✓	
Bilateral and Regional Institutions	✓	✓	✓	✓	✓	✓
CIDA	✓	✓	✓	✓	✓	✓
Commercial or Development Agency Hard Loans						
International Financial Institutions			✓	✓	✓	
Multilateral Development Agencies			✓	✓	✓	
Regional Financing Institutions			✓	✓	✓	
Export Credit Agencies			✓	✓	✓	
EDC			✓	✓	✓	

Equity Financing

There are basically three sources of project financing from commercial entities in international markets. First, there are local investors—institutional, corporate, or individual. Local investors are the easiest to isolate as they have a vested interest in the project. The problem with this type of investment, however, is that equity capital is often short in developing countries.

A second source of financing is a foreign investor with interest in the project. Reasons for interest in a project vary. For example, an investor may have distribution or marketing rights for the product, a special technology to sell, or a market to protect. Investments are also made to protect or expand market share or to broaden marketing possibilities. Bankers regard investors with this level of commitment as vital to any project.

The final source of equity investment is the nonparticipant international investor. This type of investor is hardest to find. Most likely sources are the International Finance Corporation (IFC), an affiliate of the World Bank, or the private investment arms of development banks. Such international agencies see their roles as catalysts in getting projects underway.

How Financing Affects Export Opportunities

In the early stages of project development, public-sector programs or private investors are called upon to pay for the cost of project development, which includes feasibility studies. Selecting the correct financing arrangement to cover the project's implementation is the responsibility of the project owner.

The choice of a funding source influences the selection of consultants, suppliers, and construction teams. Grant and aid agencies that provide non-repayable monies normally restrict competition to their national firms. In the case of world bodies, such as UN agencies, competition is restricted to firms of member states.

Export credit agencies offer financing on the condition that a buyer purchase project equipment and services from their country's sources. Multilateral development agencies, such as the World Bank and the Asian Development Bank, restrict competition for goods and services to firms from member states.

Private banks normally are only interested in the financial viability of the project and in the competence of the consultant, supplier, or construction firm.

To understand project financing is to understand the scope and limits of export market opportunities. Only capital projects that receive financing during the development cycle represent export opportunities. However necessary or excellent in design, a project cannot proceed to implementation unless financing is forthcoming. To ignore financing considerations is to run the risk of throwing away export business development dollars in chasing unsuccessful project proposals.

Services That Need Financing

As was noted in the introduction, capital projects have a cycle of development, and within each phase of the cycle special services and responsive financing are needed.

The first phase of the project cycle is identification. From among a number of competing alternatives, a project that can meet an owner's requirements and appears to be cost effective is put forward for implementation. Owners require the services of economists, engineers, market analysts, and various other specialists to carry out tasks related to project identification.

In the second phase—project preparation—a full range of technical, institutional, economic, and financial studies is undertaken to determine the best way to achieve implementation. Here again, project owners require the services of economists, engineers, architects, market analysts, and specialists of many disciplines.

Funds for project identification and preparation tasks are obtained from public export support

programs, investors, and financial institutions in wealthy countries. Funds to pay for the cost of technical aid to carry out the same tasks in developing countries are sought from the international financing institutions.

The third phase involves appraisal. As the project concept takes shape and studies near completion, management, investors, and would-be suppliers of project completion funds review the preparation documents. Funding agencies and bankers consider it mandatory that financial planning experts prepare project documents for appraisal.

The creditworthiness of the capital project again dictates the source of financing to cover this cost. Financially sound enterprises look to public funds, investors, or commercial credit sources. Enterprises in developing countries look to international financing institutions for technical assistance and/or funds.

Negotiations follow as part of the third phase. Investors or financial institutions are asked to agree on measures to assure the project financing. In the discussions leading up to the signing of a loan agreement or a similar legal commitment, the project owner is obliged to make commitments concerning construction and operation controls and the degree of company financing. Funding agencies and bankers insist that an owner has adequate project management assistance.

A loan agreement from an industrial nation's export credit agency, such as the EDC, is a lengthy, legalistic bankers' document. It is granted conditionally on the borrower's ability to provide evidence of creditworthiness. The terms and conditions specify that the proceeds of the loan may be used only to purchase specified Canadian goods and services, with perhaps some special local purchases. The recipient country's project agency retains the right to select the Canadian source of goods and services and to approve payments. The export credit agency, upon approval of invoices by the borrower, pays the Canadian contractor in its own currency or in the currency of the contract (e.g., US dollars).

A loan from an international or regional institution works in the same manner. The recipient selects the source of supply from among the member countries' firms and approves payments. Most international institutions allow borrowers to draw down funds in bulk sums or in individual amounts representing the value of individual contractor's claims. Each contractor is paid in the currency of its offer.

A loan agreement from a private bank or similar institution is equally lengthy and legalistic but has fewer strings attached. When substantial sums of money are involved, banks generally form a consortium and share portions of the loan among the group as a whole. The lead bank often announces certain details of the loan or credit facility in the principal financial newspapers of the world.

Finding Information on Financed Projects

Governments and Lending Agencies

News of project procurement opportunities worth billions of dollars is published twice weekly in *Development Business*. Available at an annual subscription price of $295 US, this publication lists procurement notices from the World Bank, the Inter-American Development Bank, the Asian Development Bank, and the Commission of the European Communities, as well as from other regional agencies:

Development Business
United Nations
P.O. Box 5850
Grand Central Station
New York, NY 10163-5850
USA

Scan-A-Bid, an online computer source of the same information, is available to subscribers for an additional $960 US annually.

CIDA's industrial cooperation program provides study cost assistance to Canadian exporters who wish to establish business relationships with developing country counterparts. (It does not, however, provide project financing assistance.) Consultants and other companies registered with CIDA are notified of competition for project work for which they are qualified. Regular contact with CIDA officials, including those in the Industrial Cooperation Division, will yield useful information. Contact:

Canadian International Development Agency
Industrial Cooperation Division
Place du Centre
200 Promenade du Portage
Hull, Quebec
K1A 0G4
Tel.: (819) 994-4348
Fax: (819) 953-5024

The Department of External Affairs has established the World Information Network for Exports (WIN Exports), to be used by trade commissioners abroad to match Canadian sources

of supply for goods and services with international opportunities. Exporters should ensure that they are entered in this database. Contact:

Trade Development Policy Planning and WIN Exports Division
Department of External Affairs
125 Sussex Drive
Ottawa, Ontario
K1A 0G2
Tel.: (613) 996-7183

A computerized directory maintained by the Department of Industry, Science and Technology combines data on Canadian exporters and companies listed under other government databases, including the Business Opportunities Sourcing System (BOSS). Contact:

Department of Industry, Science and Technology
235 Queen Street
Ottawa, Ontario
K1A 0H5
Tel.: (613) 954-2788
Fax: (613) 954-1894

The primary source of information concerning foreign work is the key official in the country concerned. Canada's Trade Commissioner Service has 818 officers in some 112 cities abroad. These officers are often aware of project activity in other countries and can contact key officials on behalf of exporters. To obtain a directory of the Trade Commissioner Service, contact:

Export (BTCE)
Department of External Affairs
125 Sussex Drive
Ottawa, Ontario
K1A 0G2
Tel.: 1-800-267-8376

The Geographic Trade Division of External Affairs has officers in Ottawa. A current list of division officers and their telephone numbers is published in the brochure *So You Want to Export*, available from Info Export (BTCE):

Info Export (BTCE)
Department of External Affairs
125 Sussex Drive
Ottawa, Ontario
K1A 0G2
Tel.: 1-800-267-8376
Telex: 053-3745
Fax: (613) 996-9288

The Canadian Commercial Corporation (CCC) identifies Canadian sources of supply for requirements of government-to-government transactions. Contact:

Canadian Commercial Corporation
50 O'Connor Street, 11th Floor
Ottawa, Ontario
K1A OS6
Tel.: (613) 996-0034
Telex: 053-4359 CCCA OTT
Fax: (613) 995-2121

The Ontario International Corporation assists Ontario suppliers of capital equipment, technology, and systems to win contracts for international projects. Contact:

Ontario International Corporation
56 Wellesley Street West, 7th Floor
Toronto, Ontario
M7A 2E4
Tel.: (416) 965-3013
Fax: (416) 965-7049

New Sources of Financing

After decades of state responsibility for economic development and, in some countries, hostility to private foreign investment, many developing countries have begun to reverse their policies. As a result, the climate for private firms to sponsor and assemble economic endeavours has improved.

Commercial banks and other financial institutions, both foreign and Canadian, syndicate loans in newly creditworthy countries. This source of funding enables foreign economic developers to obtain technical services and capital goods under free-enterprise market conditions. Ontario exporters

can obtain information about opportunities in these creditworthy markets through overseas trade representatives and agents as well as through Canadian and Ontario government missions. Canadian and foreign banks also advise exporters which countries are creditworthy.

To encourage similar development in less-developed countries, bilateral and international financing agencies are providing funds for free-enterprise initiatives. For example, the International Finance Corporation (IFC) disbursed loan and equity funds amounting to $2.3 billion US in 1988 to privately owned enterprises in developing countries.

The IFC also manages and contributes funds to regional organizations, which in turn fund private enterprises. The best known of these regional organizations are the Africa Project Development Facility and the Caribbean Project Development Facility.

An IFC information kit is available by contacting:

International Finance Corporation
1818 H Street, NW
Washington, DC 20433
USA
Tel.: (202) 477-1234

Exporters who become familiar with the IFC's capabilities and services may be able to assist their customers to assemble project financing.

Financing and Credit Offers

How Financing Offers Are Made

In many instances tender documents issued by foreign developers contain an instruction that bidders are to submit an offer of financing covering the foreign-exchange cost of their proposal.

Government-supported export finance and commercial bank loans are an attractive alternative for foreign developers seeking to fund capital projects. Today, more than thirty countries, including Canada, have export credit agencies and commercial banks that offer direct or indirect financial assistance to their exporters.

Foreign developers, if they qualify, want to set in motion competition for financing as well as competition for price, delivery, quality, and after-sale servicing, hence the request for financing offers.

The international trade divisions of Canadian schedule A and B banks and the EDC facilitate and develop export trade. These institutions will quickly inform Ontario exporters if they, the capital project, and their potential customer are creditworthy.

The EDC and the banks also offer a complete range of guarantee, financing, and insurance services. Potential exporters should consult a bank and the EDC as early as possible in the bidding process. The EDC's address is:

Export Development Corporation

151 O'Connor Street	150 York Street, Suite 810
P.O. Box 655	P.O. Box 810
Ottawa, Ontario	Toronto, Ontario
K1P 5T9	M5H 3S5
Tel.: (613) 598-2500	Tel: (416) 364-0135
Telex: 053-4136	Fax: (416) 862-1267
Fax: (613) 237-2690	

Types of Credit Offers

A capital projects exporter may request a bank or the EDC to offer a direct loan to the project owner for up to 85 per cent of the Canadian content

Banks, in this instance, may participate directly or share responsibility with the EDC.

Another alternative is to ask a bank to assemble a financing offer and, from the EDC or private insurers, obtain a guarantee that up to 100 per cent of the loan risk is insured. Exporters who proceed in this manner must specify whether they want a buyer's or a seller's credit.

Buyer's Credit

This is a principal form of bank-to-bank credit. The supplier is not directly involved in the financing arrangements and is paid from a loan agreement that is usually signed between a commercial banking syndicate and the buyer/borrower. The supplier is able to receive these funds on a payment system similar to that of a letter of credit. As the supplier is only indirectly involved in the financing of a buyer credit, the supplier's risks and the balance-sheet implications arising from such risks are significantly reduced. Buyer's credits are the most appropriate structure for major turnkey projects, particularly where the contractor is bidding on a lump-sum basis and progress payments can be arranged.

Supplier's Credit

With supplier's credit, the project supplier takes the lead role and is responsible for all payments, administration, insurance, and funding. The credit is evidenced and offered by the supplier to the buyer by means of bills of exchange or promissory notes. These promissory notes or bills of exchange are repayable in installments commencing from the estimated commissioning of the capital project and bear a fixed interest rate payable semiannually in arrears. Upon receipt the notes or bills are presented by the supplier to the commercial banks, who then pay the supplier. The banks obtain a guarantee from the EDC stating that if the buyer does not pay interest or principal then a percentage of the notes—usually between 90 and 95 per cent—is refundable to the banks.

When to Approach a Financing Institution

It is important to contact a bank and/or the EDC in the early stages of a potential export transaction. Early contact allows the financing institution to determine the transaction's eligibility for financing, to indicate a willingness to provide financing in the proposed market, and to inform the exporter what information is required. An early warning that a country or potential customer is not creditworthy may save an exporter time and expense.

Both banks and the EDC would be interested in:

- the financial soundness of the project
- the currency in which the transaction is to take place
- the percentage of Canadian content
- the guarantees and warranties required
- the technical and commercial competence of the exporter
- the general creditworthiness of the potential customer

If a bank or the EDC have financed the customer in previous transactions, much of the work to establish creditworthiness will have been accomplished. Moreover, if the exporter is a regular user of their financing services, then the exporter's technical and commercial competence will have been established. If there is any deficiency in the potential customer's or the exporter's eligibility for financing, the exporter must make known this fact and either establish eligibility or abandon the bid.

Notification of Financing

Neither the banks nor the EDC notify an exporter of their intent to offer financing until financing eligibility has been established, a satisfactory level of Canadian content in the transaction has been declared, and the exporter knows generally the value of the bid in the various currencies required.

The EDC has standard letters designed to let the exporter and the borrower know the status of an

application for financing. A "letter of general interest" indicates support for the concept. A "letter of interest" indicates the EDC has made a preliminary judgement; the letter might also indicate the range of interest rates and other terms that might apply. "Letters of offer" set out in principal the terms under which the EDC is prepared to negotiate loan agreements. In most instances, a bidder for capital project work requires a letter of offer that sets forth rates of interest, repayment terms, grace periods, and other considerations.

Chartered and schedule B banks in Canada may provide a syndicated loan to cover all the financing requirements or an offer of financing to cover the contract values not covered by the EDC. For example, the EDC expects a capital project owner to make a downpayment to contractors, often 15 per cent. The EDC does not fund the cost of labour and supplies purchased in the project owner's country.

An exporter will receive a prompt answer from a bank seeking business in the country concerned as to whether the potential customer is considered creditworthy. The bank also will likely inform an exporter of the nature of credit competition in that country.

How Financing Terms Are Set

The Organization for Economic Cooperation and Development (OECD), of which Canada is a member, met in 1976 to develop guidelines on converging export credit policies. These are a set of informal arrangements covering officially supported export credits with repayment terms of two years or longer. The EDC balances a desire to follow the guidelines with its mandate to make a profit.

The consensus arrangement reached by the participants covers cash downpayments required, country creditworthy classification, minimum interest rates, maximum repayment terms, and grace periods. There is an automatic system of adjusting interest rates (not more than every six months). The creditworthy status of each country is reviewed from time to time, and inclusion in a category is established.

Commercial banks set terms according to their evaluation of country, customer, and project risk. The terms are unlikely to extend over five years, and interest rates approximate those of the EDC.

Ranking Price and Financing Quotations

Project developers faced with the need to evaluate various tender prices quoted in different currencies normally stipulate that foreign exchange values for tenderers be converted to the developer's currency at an agreed rate (for example, the closing exchange rate quoted in the country on the day of submission). The ranking of price quotations may thus be established.

The ranking of financing quotations is much more complex. Loan terms vary considerably. Some financial offers are quoted at a fixed interest rate, others as variable. Repayment periods depend on each financial institution's evaluation of country and customer risk.

Private enterprise clients normally employ in-house financial experts or consultants to evaluate and rank financial offers. The financial experts calculate the total cost of the financing in the foreign exchange value, that is, the principal and interest and the cost to the project owner of using its country's currency to buy that foreign exchange over the period of the loan. Since the future cost of buying foreign currency cannot be established, the evaluation of financial offers is a subjective exercise and the criteria used differ from organization to organization and over time.

Public sector enterprises generally rely on their private or central banker's organization to assist them in the evaluation. If the central bank of the country is providing a country or "sovereign guarantee" to the transaction, the central bank then makes a final decision on any borrowings.

To simplify the ranking exercise, many project developers issue an evaluation formula. It is often not particularly sophisticated, but it does allow the project developer to evaluate the divergent terms

and conditions in some accepted manner.

Although many tenders are opened in public and information concerning prices and financing terms disseminated, the results of evaluation are rarely made known.

Requesting Financing

If a tender is opened in public, exporters will have a good indication of the competitiveness of their financing offer. If the tender is not opened in public, exporters are unlikely to know whether their price or credit offer was competitive unless asked to negotiate.

The intent of a project owner in asking exporters to provide offers of financing is to set in motion the same forces of international competition for credit as for price, delivery, and technical excellence. If an exporter's price and credit offer is attractive to an owner, negotiations with adjustments or improvements in price and credit offer may take place.

Exporters who request the EDC and the banks to offer financing covering individual contract packages of supply for a capital project are unlikely to run into the same level of international competition for credit as would be experienced by exporters who are attempting to win one-responsibility contracts. The sums of money involved in individual contract packages are smaller and the competing governments have less incentive to offer concessionary terms.

The industrial nations meet at scheduled intervals to draw up consensus terms of financing for export financing. Generally speaking, the consensus rate allows Canadian exporters to be competitive, provided all parties quote consensus rates.

What Terms Competitors Can Offer

In addition to simple interest rate and credit risk support, other types of export credit assistance may be offered:

- Tied aid credits— foreign aid funds used alone or in combination with official export credits to produce concessions in financing packages.
- Foreign content support—credit or guarantee support for the value produced in a third country (i.e., neither the buyer's nor the seller's country) but included in the total price.
- Foreign currency loans/guarantees—provides funding in foreign currencies for export transactions.
- Local cost support—credit or guarantee support for costs incurred in the purchasing country that are associated with the export transaction.
- Exchange risk insurance—covers exporters against losses that may be incurred when the contract payment is denominated in a foreign currency and that currency depreciates relative to the domestic currency.
- Inflation risk insurance—protects exporters against losses resulting from domestic cost increases for projects or equipment with lengthy fabrication periods.

Experienced exporters are presented with more foreign work opportunities than with hard currency offers of payment and therefore look for innovative financing solutions for their customers.

There are five approaches to financing that exporters may adopt to win orders: proposing export credit support, providing concessionary finance, entering into countertrade, offering a build–operate–transfer solution, or providing equity financing.

The pursuit of pre-financed export work is normally the foundation of a successful export business and is the recommended approach to be taken by first-time and less-experienced exporters. However, providing innovative financing solutions to a foreign customer may earn the experienced exporter an extra margin of business.

Five Approaches to Financing

Export Credit Financing

Foreign capital project developers often arrange financing in *tranches* or components. These components may come from the developers' resources or from their government to offset some local currency costs, or from a bilateral or multilateral development agency to cover the balance of the local costs (and, in some instances, foreign exchange costs). Often the final component comes from foreign governments. The key to using this strategy successfully is for the developers' country and their organization to be considered creditworthy.

Under the auspices of the OECD the industrial nations meet periodically to amend the 1976 consensus guidelines on converging export credit policies, which divide countries into three categories: relatively rich, intermediate, and relatively poor. The participants agree upon minimum interest rates to be granted to each category of country and such other considerations as downpayments policy, local cost coverage, and tied-aid provisions if official government credit is extended by any one country in competition with the other.

Governments are not obliged to extend official credits, only to live up to the spirit of the

consensus. In practice, countries in the relatively poor category rarely receive official export credit support, only development aid.

Exporters who know which countries are creditworthy and which are not can direct their international sales efforts accordingly and pursue capital projects work that is assured of financing support.

Concessionary Financing

Capital projects work that would result in a substantial economic benefit to Canada, such as the creation of or maintenance of a large work force, may qualify for a preferential offer of financing to a foreign government or entity.

Under conditions of extreme international competition, the EDC can, in cooperation with CIDA or with cabinet approval, authorize financing transactions that provide terms more beneficial to the recipient country and developer than would be extended under normal circumstances.

The technique employed is to mix grant monies with credit monies to effect an overall lower rate of interest and longer repayment terms, or to fund part of the foreign developer's work with credit funds and provide grant or low interest rate monies and long repayment terms for other work.

A cabinet decision to reduce Canada's foreign aid assistance as administered by CIDA will likely make this practice of combining development aid funds with export credits less attractive to the Canadian government in the 1990s.

Exporters tendering for work that would lead to the creation of or maintenance of a large work force should nevertheless contact the EDC as promptly as possible to obtain an assessment.

Countertrade

The decline in the volume of financing supported by the EDC has been substantial since the onset of the debt crisis in developing countries. For example, the OECD reports that the volume of EDC export credit with repayment terms over five years (the credit normally extended to capital project developers) has dropped from SDR 1.489 billion in 1982 to SDR 384 million in 1987. Other government export agencies have reported similar declines.

Many countries facing a shortage of development funds have therefore demanded that foreign suppliers of goods and services enter into countertrade transactions.

In simple terms, any exporter who can purchase foreign goods for in-house use, purchase for resale, or engage third parties to assume the countertrade obligation could contemplate entering into the most commonly identified form of countertrade—straight barter. Whether all parties could agree on common pricing, credit, non-fulfillment penalty, or transfer of obligations clauses would depend on the skill and experience of the exporter.

Countertrade requests also take other forms:

- counterpurchase—an agreement to sell goods and services and a reciprocal agreement to buy goods and services within a stated period of time
- compensation—the seller takes compensation in full or in part in goods and services
- buyback—an agreement to buy the output of an industrial capital project within a stated period of time
- offset—the buying organization requires the supplier to produce certain items of supply in the buyer's country

Although the Canadian government does not support countertrade, exporters may obtain more information by contacting:

Export Finance and Capital Projects Division
Department of External Affairs
125 Sussex Drive
Ottawa, Ontario
K1A 0G2
Tel.: (613) 996-6188

The Canadian Export Association (CEA) has information concerning countertrade organizations in Canada. A reference to this organization is recommended if countertrade proposals are initiated:

The Canadian Export Association
99 Bank Street, Suite 250
Ottawa, Ontario
K1A 6B9
Tel.: (613) 238-8888
Telex: 053-4888
Fax: (613) 563-9218

Build–Operate–Transfer

Some projects, such as subways, bridges, highways, pipelines, and utilities, can generate sufficient revenues through tolls or fees to pay for original capital costs and running expenses over a reasonable period.

Investing institutions, if they accept planners' economic studies and foreign governments' guarantees on capital repatriation, will agree to fund under what is known as the "build-operate-transfer" system.

Ontario professional firms, contractors, and manufacturers, either with their own resources or in joint venture with foreign companies, agree to build and operate the facility and transfer ownership to the country concerned when the financiers have recovered their investment and profit.

Equity Participation

With some foreign projects, exporters can secure orders in return for a commitment to provide equity financing.

The request for equity financing may take different avenues: the exporter may be asked to provide the value of an order for goods or services as the equity contribution; or the exporter may be guaranteed an order if the company secures third-party equity financing from a national financial institution. Variations between the two methods of financing exist.

If the project under consideration for financing generates freely convertible currency as a result of sales effort, equity participation is a one-dimensional risk. If the project generates a blocked or non-trading currency as a result of sales effort, the risk is two-dimensional. Companies with a presence in a number of countries may find equity participation beneficial.

Useful Contacts

Africa

Office for Liaison with the African Development Bank
Canadian Embassy
01 C.P. 4104
Abidjan 01, Ivory Coast
Tel.: 32-20-09 Telex: 23593
Answerback: DOMCAN ABIDJAN
Cable: Domcan Abidjan

Asia

Office for Liaison with the Asian Development Bank
Canadian Embassy
P.O. Box 971
Commercial Centre
Makati, Rizal, Manila
Philippines
Tel.: 815-95-36
Telex: 63676
Answerback: DOMCAN PN
Cable: Domcan Manila

Canada

Canadian Commercial Corporation
50 O'Connor Street, 11th Floor
Ottawa, Ontario
K1A 0S6
Tel.: (613) 996-0034
Telex: 053-4359 CCCA/OTT
Fax: (613) 995-2121

Canadian International Development Agency
Industrial Cooperation Division
Place du Centre
200 Promenade du Portage
Hull, Quebec
K1A 0G4
Tel.: (819) 994-4348
Fax: (819) 953-5024

Export Development Corporation
151 O'Connor Street
Ottawa, Ontario
K1P 5T9
Tel.: (613) 598-2500
Fax: (613) 237-2690

Export Finance and Capital Projects Division
Department of External Affairs
Government of Canada
Ottawa, Ontario
K1A 0G2
Tel.: (613) 996-7164
Fax: (613) 952-3904

Department of Industry, Science and Technology
235 Queen Street
Ottawa, Ontario
K1A 0H5
Tel.: (613) 954-2788
Fax: (613) 954-1894

Caribbean

Office for Liaison with the Caribbean Development Bank
Canadian High Commission
P.O. Box 404
Bridgetown, Barbados
Tel.: 427-3550
Telex: 2247
Answerback: CANADA WB
Cable: Domcan Bridgetown

United States

International Bank for Reconstruction and Development
The World Bank
1818 H Street, NW
Washington, DC 20433

Office for Liaison with International Financial Institutions
Canadian Embassy
501 Pennsylvania Ave., NW
Washington, DC 20001
Tel.: (202) 682-1740
Fax: (202) 682-7726

Permanent Mission of Canada to the United Nations
United Nations Development Program
866 United Nations Plaza
Suite 250 New York, New York 10017
Tel.: (212) 751-5600
Telex: 126 269
Answerback: CANINUN NYK
Cable: Caninun New York City

Glossary

The nomenclature of international effort to achieve economic growth changes over time. After the Second World War, organizations devoted to assisting growth in developing countries were generally identified as bilateral (national) or multilateral (international) development agencies or associations. In recent years, multinational agencies often have been identified as international financing institutions.

Aid/trade fund—a development assistance fund concept of providing EDC commercial export credits and CIDA aid grants or loans as one package.

Bilateral—denotes a one-country source of technical aid and soft loan development assistance, e.g., a bilateral development agency.

Buyer's credit—credit terms purchased by a foreign customer from a financing institution.

Co-financing and parallel financing—terms used by multilateral development agencies, such as the World Bank, in reference to that portion of funds supplied by other agencies and/or commercial financing institutions to achieve adequate financing of development projects when the multilateral agency funds are insufficient to meet the project's requirements.

Concessionary financing—financing offered at interest rates and repayment terms better than obtainable in commercial money markets.

Consensus rate financing—financing terms agreed by the industrialized nations' export credit agencies to be offered to various countries based on the evaluation of their creditworthiness.

Countertrade—the exchange of goods or services as a substitute for the sale of goods or services for national currencies.

***Credit-mixte* (mixed credit) financing**—an offer of financing containing normal credit terms and concessionary financing terms.

Creditworthiness—a financial institution's opinion of the ability of a country or customer to assume responsibility to repay loans.

Export credit agency—agencies in various countries that offer loan guarantee and insurance services in support of their exporters' efforts.

Hard loan—a loan negotiated by development agencies without concessionary financing elements.

Individual contract—an agreement whereby a company or service entity agrees to provide specific products or services to be used in the construction of a single facility or project.

Joint venture—an agreement between two or more companies to share their resources for a specific purpose, e.g., to tender for and carry out a contract.

London Interbank Offered Rate (LIBOR)—the rate at which industrialized country currencies trade among financial institutions.

Multilateral—a multi-country source of development assistance, e.g., World Bank.

One-responsibility contract—an agreement whereby one contractor agrees to provide the equipment, manpower, and services necessary to complete an entire facility or project, commonly referred to as a "turnkey" contract.

Private-sector financing—financing offered by commercial banks and other institutions not owned or supported by governments.

Regional development bank—a financial institution supported by one or more governments to provide funds for limited regional development purposes.

Schedule B banks—foreign-owned banks trading in Canada.

Soft loan—a loan negotiated at a low interest rate and with long repayment terms.

Sovereign guarantee—the guarantee of a central government to honor the terms of a loan made to one of its public or private enterprise institutions.

Supplier's credit—credit terms purchased by a supplier from a financing institution and passed on with or without change in terms to a foreign customer.

Trading house—a business entity that facilitates the buying and selling of goods and services for a fee.

Turnkey contract—an agreement whereby one contractor agrees to provide the equipment, manpower and services necessary to complete an entire facility or project. Also referred to as a one-responsibility contract.

Ministry of Industry, Trade and Technology
Monte Kwinter
Minister

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Ontario

Ontario
International
Corporation

56 Wellesley St. West
7th Floor
Toronto, Ontario
M7A 2E4

Telephone: (416) 965-3013
Fax: (416) 965-7049